

**THE REDEVELOPMENT AGENCY OF
THE CITY OF TORRANCE, CALIFORNIA**

(A Component Financial Reporting Unit of
the City of Torrance)

Basic Financial Statements

Year ended June 30, 2011

(With Independent Auditors' Report Thereon)

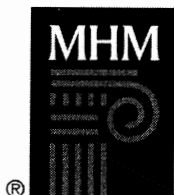
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(A Component Financial Reporting Unit of
the City of Torrance)

Year ended June 30, 2011

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Board of Directors
Torrance Redevelopment Agency
Torrance, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Torrance Redevelopment Agency ("Agency"), a component unit of the City of Torrance, California, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the Agency. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Agency for the year ended June 30, 2010 and, in our report dated December 22, 2010, we expressed unqualified opinions on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2011, and the changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described further in note 1 to the financial statements, the accompanying financial statements reflect certain changes in the reporting of fund types and fund balance classifications for governmental funds due to the implementation of GASB Statement No. 54.

As explained further in note 11, the future operation of redevelopment agencies in the state of California may be impacted by the results of litigation initiated in response to certain legislative actions enacted by the California State Legislature.

The information identified in the accompanying table of contents as *management's discussion and analysis* is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 9, 2011 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Margaret Hoffmann M. Com P.C.

Irvine, California
December 9, 2011

Management Discussion and Analysis

The information presented in the “Management’s Discussion and Analysis” is intended to be a narrative overview of the Agency’s financial activities for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the accompanying basic financial statements.

In June 1999, the Governmental Accounting Standards Board (GASB), which sets the financial reporting requirements for all state and local governments, established a new framework for financial reports. This new framework represents the biggest single change in the history of governmental accounting. These changes which are collectively known as GASB Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis – State and Local Governments*, were implemented starting fiscal year 2001-2002.

The changes provide reporting that is similar to private-sector companies by showing agencywide financial statements with a “Net Assets” bottom line approach. However, government agencies are mandated to account for certain resources and activities separately, thereby necessitating a financial format by fund as shown in the Fund Financial Statements section. The presentation of these two different types of statements together in one report requires the inclusion of two reconciliations to assist the reader.

Financial Highlights

- The liabilities of the Agency exceeded its assets at the close of fiscal year June 30, 2011 by \$58,114,923. Liabilities of the Agency exceed its assets due to the issuance of long-term debt for redevelopment of assets of which the Agency does not own or subsequently contribute.
- The Agency’s total net assets decreased by \$5,858,615 in fiscal year 2010-11.
- As of the close of fiscal year June 30, 2011, the Agency’s governmental funds reported combined ending fund balances of \$11,047,827, a decrease of \$1,056,191 from the prior year.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency’s basic financial statements. The Agency’s basic financial statements are comprised of three components: 1) agencywide financial statements, 2) fund financial statements, and 3) notes to basic financial statements.

Agencywide Financial Statements

The *agencywide financial statements* are designed to provide readers with a broad overview of the Agency’s finances. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the

fiscal year's revenues and expenses are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus assets, liabilities, and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods.

- The *Statement of Net Assets* presents all of the Agency's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator to determine whether the financial position of the Agency is improving or deteriorating.
- The *Statement of Activities* presents information showing the Agency's revenues and expenses for the fiscal year. Functional activities are highlighted in this statement, whereby direct and indirect functional costs are shown net of related program revenue. This statement shows the extent to which the various functions depend on general taxes and nonprogram revenues for support.

Both the agencywide financial statements highlight functions of the Agency that are principally supported by property tax increments and bond proceeds from prior years. The governmental activities of the Agency include redevelopment activities in three of its project areas and interest on long-term debt mainly in the same project areas. Redevelopment activities, in general, include providing needed public improvements, assisting with development and rehabilitation of existing properties, and providing low-moderate income housing to eliminate or alleviate blighting conditions.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Agency only has governmental fund types.

Governmental funds – Government funds are used to account for essentially the same functions reported as *governmental activities* in the agencywide financial statements. However, unlike the agencywide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the agency's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the agencywide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities of the agencywide financial statements. By doing so, readers may better understand the long-term impact of the agency's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation on pages 11 and 13 to facilitate this comparison between governmental funds and governmental activities.

The Agency maintains seven individual governmental funds, six of which are major funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances, for each of these funds.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the agencywide and fund financial statements.

Agencywide Financial Analysis

This is the tenth year that the Agency has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management’s Discussion and Analysis (MD&A) – for State and Local Governments*.

Our agency wide financial analysis focuses on the net assets and changes in net assets for the Agency’s governmental activities.

A summary of the Agency’s net assets at June 30, 2011 is as follows:

	Governmental activities FY2010-11	Governmental activities FY2009-10
Noncapital assets	\$ 12,585,572	\$ 13,220,766
Capital assets, net	846,504	6,981,700
Total assets	13,432,076	20,202,466
Long-term Liabilities	43,968,376	44,813,342
Advances from the City	17,090,248	18,432,015
Accrued interest	8,950,630	8,096,669
Due to other governments	-	1,109,548
Due to the City	1,526,144	-
Other liabilities	11,601	7,200
Total liabilities	71,546,999	72,458,774
Net assets:		
Invested in capital assets, net of related debt	846,504	6,981,700
Restricted	10,663,634	11,891,016
Unrestricted	(69,625,061)	(71,129,024)
	\$ (58,114,923)	\$ (52,256,308)

As noted earlier, net assets may serve over time as a useful indicator of the Agency’s financial position. In the case of the Agency, liabilities exceeded assets by \$58,114,923 at June 30, 2011.

By far the largest portion of the Agency’s net deficit reflects its bonded indebtedness and other long-term obligations totaling \$43,968,376. The Agency, operating under the California Redevelopment Law, must maintain debt in excess of its available assets to legally receive tax increment revenue. Bond funds are used to construct infrastructure, which becomes an asset of the City, or to alleviate blight. These expenditures do not generally create assets to offset bonded debt. Future tax increment revenues must be used to liquidate noncurrent bond liabilities.

Governmental Activities

Governmental activities decreased the Agency's net assets by \$5,858,615 as shown below:

	Governmental activities FY2010-11	Governmental activities FY2009-10
Revenues:		
General revenues:		
Property taxes	\$ 9,042,411	\$ 8,968,312
Sales taxes	1,662,056	1,562,632
Investment earnings	39,762	300,794
Miscellaneous	88,174	84,798
Total general revenues	<u>10,832,403</u>	<u>10,916,536</u>
Expenses:		
Redevelopment activities	3,915,288	5,955,177
Interest on long-term debt	3,686,936	2,895,917
Payment to City of Torrance	2,942,085	3,051,200
Total expenses	<u>10,544,309</u>	<u>11,902,294</u>
Transfers to City of Torrance (note 3)	<u>(6,135,196)</u>	<u>-</u>
Increase (decrease) in net assets	(5,847,102)	(985,758)
Net assets (deficits) – beginning	(52,256,308)	(51,270,550)
Prior period adjustment (note 10)	<u>(11,513)</u>	<u>-</u>
Net assets (deficits) – ending	<u>\$ (58,114,923)</u>	<u>\$ (52,256,308)</u>

Property tax increment revenue which is the Agency's major revenue source has recovered from a decline in the previous year. Investment earnings were received from investments of available funds.

Redevelopment activities expenses as shown on the statement of activities consist of capital redevelopment and improvement project costs, SERAF shift as mandated by the State, pass-through payments, and county collection fees. Expenses also include low-moderate income housing project costs and depreciation and housing set-aside.

Financial Analysis of the Agency's Funds

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The Downtown capital project fund received funding from the debt service fund during the year adding to an increase in the ending fund balance.

There was an increase in the Low Mod Housing fund balance as a result of the 20% housing set-aside received from the debt service funds.

As of June 30, 2011, the Agency's governmental funds reported combined ending fund balances of \$11,047,827, a decrease of \$1,056,191 from the prior year. Restricted fund balance is \$12,920,407 and it is not available for new spending because it has already been committed to pay debt service and restrict fund balance for low-moderate income housing, capital projects and long-term advances. Refer to note 4 of the notes to the basic financial statements for further details and disclosures.

Capital Asset and Debt Administration

Capital Assets

The Agency's investment in capital assets for its governmental activities as of June 30, 2011 amounted to \$846,504 (net of accumulated depreciation). A summary of the Agency's capital assets, net of depreciation, as of June 30, 2011 is as follows:

Land	\$	846,504
Buildings and fixtures		-
Subtotal		846,504
Less: accumulated depreciation		-
Total	\$	<u>846,504</u>

Long-Term Liabilities

At the end of the current fiscal year, the Agency had total bonded debt of \$30,323,616 and other long-term liabilities of \$13,644,760, for a total of \$43,968,376. The bonds are secured solely by specified revenue sources (i.e., property tax increment).

The Agency's total debt decreased by \$844,966 during the current fiscal year mainly due to payment of principal.

The Agency has received the following bond ratings: A- for the Downtown Bond and AAA and BBB for Industrial Bond Series A and Series C from Standard & Poor's and; Aa3 for Downtown Bond and Baal for Industrial Series A and Series C from Moody's.

Additional information on outstanding long-term liabilities may be found in note 5 of the notes to basic financial statements.

Request for Information

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to The Redevelopment Agency of the City of Torrance, 3031 Torrance Blvd., Torrance, California 90503.

BASIC FINANCIAL STATEMENTS

**THE REDEVELOPMENT AGENCY OF
THE CITY OF TORRANCE, CALIFORNIA**
(A Component Financial Reporting Unit of
the City of Torrance)

Statement of Net Assets

June 30, 2011
(with Comparative totals for the Prior Year)

	<u>2011</u>	<u>2010</u>
Assets		
Pooled cash and investments (note 2)	\$ 8,110,889	\$ 9,269,183
Cash and cash equivalents with fiscal agents (note 2)	2,931,155	2,948,318
Accrued interest receivable	27,704	80,523
Due from other governments	1,515,824	919,228
Other prepayments	-	3,514
Capital assets, net (note 3)	846,504	6,981,700
Total assets	<u>13,432,076</u>	<u>20,202,466</u>
Liabilities		
Accounts payable	11,601	7,200
Due to other governments	-	1,109,548
Due to the City	1,526,144	-
Advances from the City (note 5)	17,090,248	18,432,015
Accrued interest payable	8,950,630	8,096,669
Long-term liabilities – portion due or payable within one year (note 5)	1,699,316	1,580,225
Long-term liabilities – portion due or payable after one year	42,269,060	43,233,117
Total liabilities	<u>71,546,999</u>	<u>72,458,774</u>
Net Assets (Deficits)		
Invested in capital assets	846,504	6,981,700
Restricted for:		
Repayment of debt	1,593,347	4,249,260
Low-moderate income housing	9,070,287	7,641,756
Unrestricted	(69,625,061)	(71,129,024)
Total deficits	<u>\$ (58,114,923)</u>	<u>\$ (52,256,308)</u>

See accompanying notes to the basic financial statements.

**THE REDEVELOPMENT AGENCY OF
THE CITY OF TORRANCE, CALIFORNIA**
(A Component Financial Reporting Unit of
the City of Torrance)

Statement of Activities

Year ended June 30, 2011
(with Comparative totals for the Prior Year)

	<u>2011</u>	<u>2010</u>
Expenses:		
Community development	\$ 3,915,288	\$ 5,955,177
Interest on long-term debt	3,686,936	2,895,917
Payment to City of Torrance	2,942,085	3,051,200
Total expenditures	<u>10,544,309</u>	<u>11,902,294</u>
General revenues:		
Taxes:		
Property taxes	9,042,411	8,968,312
Sales taxes	1,662,056	1,562,632
Investment earnings	39,762	300,794
Miscellaneous	88,174	84,798
Total general revenues	<u>10,832,403</u>	<u>10,916,536</u>
Transfers to the City of Torrance (note 3)	(6,135,196)	-
Change in net assets	(5,847,102)	(985,758)
Net assets (deficits) – beginning	(52,256,308)	(51,270,550)
Prior period adjustment (note 10)	(11,513)	-
Net assets (deficits) – ending	<u>\$ (58,114,923)</u>	<u>\$ (52,256,308)</u>

See accompanying notes to the basic financial statements.

**THE REDEVELOPMENT AGENCY OF
THE CITY OF TORRANCE, CALIFORNIA**
(A Component Financial Reporting Unit of
the City of Torrance)

Balance Sheet -- Governmental Funds

June 30, 2011

(with Comparative totals for the Prior Year)

	Capital Project Funds			Debt Service Funds			Nonmajor Governmental Funds	2011		2010	
	Downtown	Industrial	Low-Moderate Income Housing	Skypark	Downtown	Industrial		Total Governmental Funds	Total Governmental Funds	Total Governmental Funds	Total Governmental Funds
Assets											
Pooled cash and investments (note 2)	\$ 251,563	78,208	7,173,098	370	600,865	—	6,785	8,110,889	9,269,183		
Cash and cash equivalents with fiscal agents (note 2)	—	—	—	—	589,733	2,341,422	—	2,931,155	2,948,318		
Accrued interest receivable	1,270	—	26,434	—	—	—	—	27,704	80,523		
Due from other governments	—	—	—	775	777,340	737,709	—	1,515,824	919,228		
Advances to other funds	—	—	1,873,725	—	—	—	—	1,873,725	1,633,409		
Other prepayments	—	—	—	—	—	—	—	—	3,514		
Total assets	\$ 252,833	78,208	9,073,257	1,145	1,967,938	3,079,131	6,785	14,459,297	14,854,175		
Liabilities and Fund Balances											
Liabilities:											
Accounts payable	\$ 5,713	—	2,970	—	2,918	—	—	11,601	7,200		
Due to other governments	—	—	—	—	—	—	—	—	1,109,548		
Due to other funds	—	—	—	—	—	1,526,144	—	1,526,144	—		
Advances from other funds	—	—	—	1,873,725	—	—	—	1,873,725	1,633,409		
Total liabilities	5,713	—	2,970	1,873,725	2,918	1,526,144	—	3,411,470	2,750,157		
Fund balance (note 4) :											
Restricted for:											
Capital projects	247,120	78,208	9,070,287	—	—	—	6,785	9,402,400	7,854,758		
Debt service	—	—	—	—	1,965,020	1,552,987	—	3,518,007	5,816,824		
Unassigned	—	—	—	(1,872,580)	—	—	—	(1,872,580)	(1,567,564)		
Total fund balances	247,120	78,208	9,070,287	(1,872,580)	1,965,020	1,552,987	6,785	11,047,827	12,104,018		
Total liabilities and fund balances	\$ 252,833	78,208	9,073,257	1,145	1,967,938	3,079,131	6,785	14,459,297	14,854,175		

See accompanying notes to the basic financial statements.

**THE REDEVELOPMENT AGENCY OF
THE CITY OF TORRANCE, CALIFORNIA**
(A Component Financial Reporting Unit of
the City of Torrance)

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets

June 30, 2011

Total fund balances for governmental funds		\$	11,047,827
Amounts reported for governmental activities in the statement of net assets (deficit) are different because:			
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet:			
Land	\$	<u>846,504</u>	846,504
Interest payable on long-term debt does not require current financial resources:			
Therefore interest payable is not reported as a liability in governmental fund balance sheet:			
Accrued interest payable on bonded debt		(569,979)	
Accrued interest on advances from developers		(864,547)	
Accrued interest on County advances		<u>(7,516,104)</u>	(8,950,630)
Long-term liabilities are not due and payable in the current period and therefore they are not reported in the governmental funds balance sheet:			
Bonds payable		(30,323,616)	
Advances from developers		(910,790)	
Advances from County		(12,733,970)	
Advances from the City		<u>(17,090,248)</u>	(61,058,624)
Net assets (deficits) of governmental activities			<u>\$ (58,114,923)</u>

See accompanying notes to the basic financial statements.

**THE REDEVELOPMENT AGENCY OF
THE CITY OF TORRANCE, CALIFORNIA**
(A Component Financial Reporting Unit of
the City of Torrance)

Statements of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2011

(with Comparative totals for the Prior Year)

	Capital Project Funds			Debt Service Funds			Nonmajor Governmental Funds	2011	2010
	Downtown	Industrial	Low/Moderate Income Housing	Skypark	Downtown	Industrial		Total Governmental Funds	Total Governmental Funds
Revenues:									
Taxes	—	—	—	620,313	1,902,370	8,181,784	—	10,704,467	10,530,944
Use of money and property	2,666	—	—	—	20,790	16,306	—	39,762	300,794
Other revenues	14,300	—	73,874	—	—	—	—	88,174	84,798
Total revenues	16,966	—	73,874	620,313	1,923,160	8,198,090	—	10,832,403	10,916,536
Expenditures:									
Capital outlays									
Debt service:	228,345	—	325,257	—	—	—	—	553,602	4,549,290
Principal retirement	—	—	—	295,225	1,603,847	1,075,000	—	2,974,072	1,462,953
Interest and fiscal charges	—	—	—	68,869	2,161,666	1,491,078	—	3,721,613	2,927,765
County pass-through	—	—	—	—	1,087,629	1,836,885	—	2,924,514	3,196,943
SERAF	—	—	—	437,172	—	—	—	437,172	2,123,409
Total expenditures	228,345	—	325,257	801,266	4,853,142	4,402,963	—	10,610,973	14,260,360
Excess (deficiency) of revenues over expenditures	(211,379)	—	(251,383)	(180,953)	(2,929,982)	3,795,127	—	221,430	(3,343,824)
Other financing sources (uses):									
Transfers in (note 6)	52,080	—	1,701,007	—	—	—	—	1,753,087	1,673,293
Transfers out (note 6)	—	—	—	(124,063)	(432,554)	(1,196,470)	—	(1,753,087)	(1,673,293)
Transfers to the City of Torrance	(22,638)	—	(21,093)	—	—	(3,210,915)	—	(3,254,646)	(3,172,082)
Advances from City	312,561	—	—	—	52,080	—	—	364,641	120,882
Advances from County	—	—	—	—	1,575,169	—	—	1,575,169	1,577,046
Advances from developers	—	—	—	—	—	48,728	—	48,728	48,090
Total other financing sources (uses)	342,003	—	1,679,914	(124,063)	1,194,695	(4,358,657)	—	(1,266,108)	(1,426,064)
Net change in fund balances	130,624	—	1,428,531	(305,016)	(1,735,287)	(563,530)	—	(1,044,678)	(4,769,888)
Fund balances, beginning - as restated (note 10)	116,496	78,208	7,641,756	(1,567,564)	3,700,307	2,116,517	6,785	12,092,505	16,873,906
Fund balances, ending	\$ 247,120	\$ 78,208	\$ 9,070,287	\$ (1,872,580)	\$ 1,965,020	\$ 1,552,987	\$ 6,785	\$ 11,047,827	\$ 12,104,018

See accompanying notes to the basic financial statements.

**THE REDEVELOPMENT AGENCY OF
THE CITY OF TORRANCE, CALIFORNIA**
(A Component Financial Reporting Unit of
the City of Torrance)

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities

Year ended June 30, 2011

Net change in fund balances – total governmental funds	\$	(1,056,191)
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	1,207,047	
Asset additions funded by Governmental Funds	<u>(7,342,243)</u>	(6,135,196)

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets:

Bond principal payment (Skypark)	295,225	
Bond principal payment (Downtown)	210,000	
Bond principal payment (Industrial)	<u>1,075,000</u>	1,580,225

Under the modified-accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified-accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of accrued interest and advances:

Advances from County	(735,259)	
Advances from City	1,341,767	
Accrued interest payable on bonded debt	34,676	
Accrued interest on advances from County	(839,910)	
Accrued interest on advances from developers	<u>(48,727)</u>	(247,453)
Change in net assets of governmental activities		<u>(5,858,615)</u>
Prior Period Adjustment (Note 10)		11,513
Change in net assets includes prior period adjustment	\$	<u><u>(5,847,102)</u></u>

See accompanying notes to the basic financial statements.

**THE REDEVELOPMENT AGENCY OF
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(A Component Financial Reporting Unit of
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Notes to the Basic Financial Statements

Year ended June 30, 2011

(1) Reporting Entity and Summary of Significant Accounting Policies

(a) History and Organization

The Redevelopment Agency of the City of Torrance, California (the Agency) was established November 4, 1964 pursuant to the State of California Health and Safety Code, Section 33000, entitled Community Redevelopment Law. As such, the Agency acts as a legal entity, separate and distinct from the City of Torrance, California (the City).

The actions of the Agency are binding, and business, including the issuance of long-term debt, is routinely transacted in the Agency's name by its appointed representatives. The Agency is broadly empowered to engage in the general economic revitalization and redevelopment of the City through acquisition and development of property in those areas of the City determined to be in a declining condition.

The Torrance City Council has declared itself to be the Agency's governing board pursuant to the Community Redevelopment Law. The Agency has no employees, and all Agency duties and functions are performed by employees of the City. The Agency reimburses the City for the cost of City employee services utilized by the Agency. Such reimbursements are based on employees' gross salaries and benefits and amounted to \$55,712 for the year ended June 30, 2011.

For financial reporting purposes, the Agency is considered to be a component financial reporting unit of the City's reporting entity and has been included in the City's Comprehensive Annual Financial Report for the year ended June 30, 2011.

The Agency administers the following redevelopment projects:

- Skypark Redevelopment Project – The Skypark Redevelopment Project was adopted in 1976 and encompasses approximately 30 acres. The project includes two restaurants, a commercial bank, a medical/office building, and retail commercial space.
- Downtown Torrance Redevelopment Project – The Downtown Torrance Redevelopment Project, established in 1979, encompasses a plan to reverse the declining trend in the downtown Torrance area. This will be accomplished through a coordinated program of public improvements, new development, and the rehabilitation and maintenance of existing structures.
- Industrial Redevelopment Project – In July 1983, the Agency adopted the Industrial

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(Continued)

Redevelopment Project, which encompasses approximately 300 acres of industrially zoned property on the eastern boundary of the City. The purpose of the project is to strengthen the economic base of the project area by installing needed infrastructure improvements to stimulate new commercial expansion.

- Low-Moderate Income Housing Fund – The Low/Moderate Income Housing Fund was established for monies set aside in the Skypark, Downtown, and Industrial Redevelopment Projects for low/moderate income housing pursuant to California Community Redevelopment Rules and Regulations governing Redevelopment Agencies. The primary source of funds has been the contribution of 20% of tax increment revenues generated by the Redevelopment Project Areas.

(b) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

Agencywide Financial Statements

The agencywide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the nonfiduciary activities of the Agency. The Agency provides only governmental activities which are supported principally by property tax increments. The agencywide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Government fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. For example, property tax increments for the current year that were received within 60 days after June 30 were accrued and included as revenue at June 30, 2011. Expenditures generally are recorded when a liability

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(Continued)

is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Due to the implementation of GASB No. 54, the components of the fund balances of governmental funds now reflect the component classifications described below. Prior year amounts have been restated to reflect the component designations required by GASB No. 54.

Fund balances are reported in the fund statements in the following classifications:

Nonspendable Fund Balance

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

Spendable Fund Balance

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Board action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

Committed Fund Balance – this includes amounts that can be used only for the specific purposes determined by a formal action of the Board. It includes legislation (Board action) that can only be overturned by new legislation requiring the same type of voting consensus that created the original action. Therefore, if the Board action limiting the use of funds is separate from the action (legislation) that created (enables) the funding source, then it is committed, not restricted. The City considers a resolution, an ordinance, or a minutes action to constitute a formal action of Board of Directors for the purposes of establishing committed fund balance.

Assigned Fund Balance – this includes amounts that are designated or expressed by the Board, but does not require a formal action like a resolution or ordinance. The Board may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes. Such delegation of authority has been granted to the Executive Director.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

It is the Agency's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the Board.

The Agency reports the following as major governmental funds:

- Downtown Capital Project Fund, Industrial Capital Project Fund and Low/Moderate Income Housing Capital Project Fund – Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.
- Skypark Debt Service Fund, Downtown Debt Service Fund, and Industrial Debt Service Fund – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The nonmajor governmental fund is the Skypark Capital Project Fund.

The Agency's Statements of Net Assets, Statements of Activities, Balance Sheets and Statements of Revenues, Expenditures and Changes in Fund Balances show data for the fiscal year ended June 30, 2010 for comparative purposes only.

(c) Other Financing Sources

The City has provided working capital to the Agency in the form of cash advances. These advances are payable to the City on an extended-term basis; accordingly, such advances and resulting extension of terms are treated as other financing sources and become part of the long-term liabilities of the Agency. Funds advanced to the Agency by developers and interest thereon is accounted for in the same manner.

Long-term liabilities are payable from future incremental property tax revenue arising from future tax levies in the project areas and proceeds from the sale of project land to the extent available.

(d) Budgetary Principles

Annual budgets are not required for the Agency's Capital Project and Debt Service Funds because effective budgetary control is achieved through alternative means, such as project-by-project analysis and provisions of the bond indenture.

(e) Cash and Investments

Cash and investments of the Agency are pooled with that of the City and are invested by the City Treasurer. The Agency's investments policy guidelines provide for pooling its cash and

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Notes to the Basic Financial Statements

(Continued)

investments with the City Treasurer and allow for the same types of investments as the City. State statutes authorize the Agency to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, municipal bonds and the State Treasurer's Investment Pool.

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Interest is allocated to the Agency based on its proportional share of the pooled cash and investments. The Agency's share of pooled cash and investments with the treasurer is carried at fair value.

Investments for the Agency are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

(f) Cash and Investments with Fiscal Agent

Cash and investments with fiscal agents represents amounts held by a trustee bank that are restricted for use in either acquiring certain assets or servicing long-term debt of the Agency as required by the bond indentures. Investments in guaranteed investment contracts are carried at fair value based on net realizable value. Mutual funds are carried at fair value based on the fund's share price.

(g) Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the statement of net assets. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and fixtures	40
Equipment	5 to 7

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(Continued)

(h) Long-Term Liabilities

In the Agencywide financial statements, long-term debt, and other long-term liabilities are reported as liabilities in the statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

(i) Fund Balances

In the fund financial statements, reserves represent those portions of fund balances not available for appropriation or legally segregated for a specific future use. Designated fund balances represent amounts identified by management for the future use of financial resources.

(j) Tax Increment Revenue

The Redevelopment Law provides the means for financing redevelopment projects based upon an allocation of taxes collected within project areas. The taxable valuation of project areas prior to adoption of the redevelopment plans, or base roll, is established and, except for any period during which the taxable valuation drops below the base roll level, the taxing agencies thereafter receive only the taxes produced by the levy of the current tax rate upon the base roll. Tax revenues collected upon any increase in taxable valuation over the base roll (tax increment) are allocated to the redevelopment agency and may be pledged by the redevelopment agency for the repayment of any indebtedness incurred in financing or refinancing redevelopment projects. Redevelopment agencies themselves have no authority to levy property taxes and must look specifically to the allocation of taxes produced as described.

Taxes are levied annually and become a lien on real property on January 1 preceding the fiscal year for which the taxes are levied. Taxes are generally paid in two equal installments due on November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively.

(k) Prior Year Data

The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not present a complete presentation in accordance with generally accepted accounting principles. Certain reclassifications to the prior year data may have been made in order to enhance comparability with the current year data.

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Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 8,110,889
Cash and investments held by bond trustee	<u>2,931,155</u>
Total cash and investments	<u>\$11,042,044</u>

Cash and investments as of June 30, 2011 consist of the following:

Deposits with financial institutions	\$ 1,110,889
Investments	<u>9,931,155</u>
Total cash and investments	<u>\$11,042,044</u>

Equity in the Cash and Investment Pool of the Agency

The Agency has no separate bank accounts or investments other than investments held by bond trustee and the Agency's equity in the cash and investment pool managed by the City of Torrance. The Agency is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Torrance. The Agency has adopted an investment policy separate from that of the City of Torrance. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis.

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the **investment types** that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address **interest rate risk** and **concentration of credit risk**.

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Notes to the Basic Financial Statements

(Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Agreements	30 years	None	None
Local Agency Investment Fund	None	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the Agency's exposure to interest rate risk as a result of its equity in the cash and investment pool of the City of Torrance provided by disclosures in the notes to the basic financial statements of the City of Torrance that shows the distribution of the City's investments by maturity.

Information about the sensitivity of the fair values of the Agency's investments held by bond trustee to market interest rate fluctuations is provided by the following table that shows the distribution of these investments by maturity:

Investment Type		Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More Than 60 Months
Local Agency Investment Fund	\$ 7,000,000	\$ 7,000,000	\$ -	\$ -	\$ -
Held by bond trustee:					
Money market funds	2,931,155	2,931,155	-	-	-
Total	\$ 9,931,155	\$ 9,931,155	\$ -	\$ -	\$ -

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Notes to the Basic Financial Statements

(Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>		Minimum Legal Rating	AAA	A-	Not Rated
Local Agency Investment Fund	\$ 7,000,000	N/A	\$ -	\$ -	\$ 7,000,000
Held by bond trustee:					
Money market funds	2,931,155	A	2,931,155	-	-
Total	<u>\$ 9,931,155</u>		<u>\$ 2,931,155</u>	<u>\$ -</u>	<u>\$ 7,000,000</u>

Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, mutual funds and investment pools) that represent 5% or more of total investments for the entire entity (or for each separate major fund or for non-major funds in the aggregate) are as follows:

Investments held by bond trustee reported in the Debt Service Fund in the amount of \$2,931,155 are held in a money market account.

Custodial Credit Risk

The Agency does not have significant separate certificates of deposit or demand accounts held by bond trustee that are subject to disclosable custodial credit risk (as defined by GASB Statement No. 40). The Agency does not have direct investments in securities subject to disclosable custodial credit risk (as defined by GASB Statement No. 40).

For the investments held by bond trustee, the bond trustee, at the direction of the City Treasurer, selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

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Notes to the Basic Financial Statements

(Continued)

Investment in State Investment Pool

The City of Torrance is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City of Torrance investment in the pool is reported in the accompanying financial statements at amounts based upon the City of Torrance pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not rated.

(3) Capital Assets

Changes in the Agency's capital assets are as follows:

	<u>Balance, July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2011</u>
Nondepreciable:				
Land	\$ 1,641,504	—	(795,000)	846,504
Depreciable:				
Buildings and fixtures	6,547,243	—	(6,547,243)	—
Total at historical cost	8,188,747	—	(7,342,243)	846,504
Accumulated depreciation	(1,207,047)	—	1,207,047	—
Capital assets, net	\$ <u>6,981,700</u>	<u>—</u>	<u>(6,135,196)</u>	<u>846,504</u>

**THE REDEVELOPMENT AGENCY OF
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Notes to the Basic Financial Statements

(Continued)

(4) Restricted and Unassigned Fund Balances

In the fund financial statements, restrictions segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The composition of the restricted and unassigned portion of fund balances at June 30, 2011 is as follows:

	Capital Project Fund				Debt Service Fund		
			Low-				
	Downtown	Industrial	Moderate	Nonmajor	Skypark	Downtown	Industrial
Restricted for:							
Capital Projects	\$ 247,120	78,208	9,070,287	6,785	—	—	—
Debt service	—	—	—	—	—	1,965,020	1,552,987
Unassigned	—	—	—	—	(1,872,580)	—	—
	<u>\$ 247,120</u>	<u>78,208</u>	<u>9,070,287</u>	<u>6,785</u>	<u>(1,872,580)</u>	<u>1,965,020</u>	<u>1,552,987</u>

(5) Long-Term Debt

(a) Advances

At June 30, 2011, the balance of the City's advances to the Agency aggregated \$17,090,248. The Agency shall resume repayment of these advances when the annual tax increments allocation exceeds the annual debt service requirement.

The Agency also has advances from the County of Los Angeles (County) aggregating \$20,250,074, which includes accrued interest of \$7,516,104 on advances of \$12,733,970 at June 30, 2011. In April 1991, the Agency entered into an agreement for Allocation of Tax Incremental Funds. Under the agreement, the County agrees to loan a portion of its share of tax incremental property tax revenue to the Agency. Advances accrue at a simple interest rate of 7% per year beginning in fiscal year 1992-1993. The Agency shall commence repayment of these advances when the annual tax increment allocation exceeds the annual debt service requirement.

(b) Notes Payable

In April 1985, the Agency entered into a Participation Agreement (PA) with American Honda Motor Co., Inc. (Honda) for the acquisition and redevelopment of 25 acres within the Industrial Redevelopment Project for the American Honda Corporation National Headquarters Complex. The agreement provided for an advance of \$8,000,000 for purchase of the land and

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(Continued)

excess acquisition and relocation costs. In June 1987, the Agency and Honda entered into a First Implementation Agreement that amended the PA to provide for an additional interest-bearing advance of \$3,000,000. The interest rate on these advances is adjusted every six months based on the average California Municipal Bond Merrill Lynch Index, which at June 30, 2011 was 5.19%. At June 30, 2011, the Agency's indebtedness to Honda, including accrued interest of \$864,547 on the advances of \$910,790, aggregated \$1,775,337. Repayment of these advances is to be effected through the proceeds of tax allocation bonds and tax increments from the site.

(c) Bonds Payable

A summary of the Agency's bonds payable at June 30, 2011 is as follows:

Skypark Project	\$ 488,616
Downtown Project	6,535,000
Industrial Project	23,300,000
	<hr/>
	\$ 30,323,616
	<hr/>

(d) 2001 Tax Allocation Refunding Bonds – Skypark Project

On December 31, 2001, the Agency issued the Skypark 2001 Tax Allocation Refunding Bonds in the aggregate principal amount of \$2,470,143 with an average interest rate of 8% per annum. The proceeds of the Refunding Bonds were used to redeem the 1987 Tax Allocation Bonds in full, at a price equal to the principal amount plus accrued interest to the date of redemption, without premium, in accordance with Section 11 of the 1987 Bond Resolution and the conditional notice of redemption sent to the Owners of the 1987 Bonds on December 1, 2001.

The bonds will mature on July 1, 2012, with annual principal payments ranging from \$158,000 to \$369,000. Interest is payable semiannually on July 1 and January 1 of each year at the rate of 8%. The principal and interest are to be repaid directly from tax increments accruing to the Agency.

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(Continued)

Annual debt service requirements to maturity for the bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total debt service</u>
Year ending June 30:			
2012	\$ 319,316	32,828	352,144
2013	169,300	6,772	176,072
	<u>\$ 488,616</u>	<u>39,600</u>	<u>528,216</u>

(e) 1998 Series A Tax Allocation Refunding Bonds – Downtown Project

On July 15, 1998, the Agency issued \$8,500,000 Tax Allocation Refunding Bonds. Proceeds of the Bonds were used to refund the Agency's outstanding Downtown Redevelopment Project Tax Allocation Refunding Bonds, Series 1992, to repay the entire obligation represented by the Gascon Mar Loan, to fund a reserve for the Bonds and to pay the costs of issuing the Bonds.

Commencing September 1, 1999, \$2,415,000 of the 1998 Bonds mature serially through 2012 with annual principal payments ranging from \$115,000 to \$230,000. Starting from September 1, 2013 and continuing through 2028, the principal on the term bonds totaling \$6,085,000 is payable annually in amounts ranging from \$245,000 to \$555,000. Interest is payable on March 1 and September 1 of each year with rates ranging from 4.10% to 5.30% for serial bonds and 5.55% to 5.60% for term bonds. Principal and interest are to be repaid directly from the tax increments accruing to the Agency.

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(Continued)

Annual debt service requirements to maturity for the bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total debt service</u>
Year ending June 30:			
2012	\$ 220,000	357,932	577,932
2013	230,000	346,008	576,008
2014	245,000	333,114	578,114
2015	260,000	319,100	579,100
2016	275,000	304,254	579,254
2017-2021	1,615,000	1,268,399	2,883,399
2022-2026	2,115,000	749,700	2,864,700
2027-2029	1,575,000	135,660	1,710,660
	<u>\$ 6,535,000</u>	<u>3,814,167</u>	<u>10,349,167</u>

(f) 1998 Series A and B Tax Allocation Refunding Bonds, 1999 Series C Tax Allocation Refunding Bonds – Industrial Project

On July 1, 1998, the Agency issued the following series Bonds: (i) \$18,385,000 Tax Allocation Senior Lien Refunding Bonds, 1998 Series A and (ii) \$12,770,000 Tax Allocation Subordinate Lien Refunding Bonds, 1998 Series B. On June 15, 1999, the Agency issued \$18,500,000 Tax Allocation Senior Lien Forward Refunding Bonds, 1999 Series C. Proceeds of the Series A Bonds and the Series B Bonds were used to refund the Agency's outstanding Industrial Redevelopment Project Tax Allocation Refunding Bonds, Series 1989, to repay the Torrance Center II obligation represented by the Gascon Mar Loan, to fund a reserve fund for the Bonds and to pay the costs of issuing the Bonds. The Series C Bonds were used to redeem and refund in whole the Series A Bonds, to fund a reserve account, and to pay the costs of issuing the Series C Bonds.

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(Continued)

Annual debt service requirements to maturity for the bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total debt service</u>
Year ending June 30:			
2012	\$ 1,160,000	1,256,098	2,416,098
2013	1,260,000	1,190,135	2,450,135
2014	1,355,000	1,117,988	2,472,988
2015	870,000	1,056,403	1,926,403
2016	920,000	1,007,109	1,927,109
2017-2021	5,405,000	4,195,236	9,600,236
2022-2026	7,075,000	2,479,216	9,554,216
2027-2029	5,255,000	447,078	5,702,078
	<u>\$ 23,300,000</u>	<u>12,749,263</u>	<u>36,049,263</u>

(g) Changes in Advances and Long-Term Liabilities

The following is a summary of changes in Advances from the City of Torrance for the year ended June 30, 2011:

	<u>Advances from the City of Torrance</u>				
	<u>Advances from Self- Insurance Fund</u>	<u>Advances from Water Fund</u>	<u>Advances from General Fund</u>	<u>Advances from Sewer Fund</u>	<u>Total</u>
Balance at June 30, 2010	\$ 1,000,000	1,154,432	15,858,555	419,028	18,432,015
Increase in obligations	—	—	364,641	—	364,641
Principal reduction	(1,000,000)	—	(706,408)	—	(1,706,408)
Balance at June 30, 2011	<u>\$ —</u>	<u>1,154,432</u>	<u>15,516,788</u>	<u>419,028</u>	<u>17,090,248</u>
Amounts due within one year	\$ —	—	—	—	—

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(Continued)

The following is a summary of changes in long-term liabilities for the year ended June 30, 2011:

	Advances from L.A. County	Notes payable Advances from developers	Skypark Project Bonds payable	Bonds payable Downtown Project Bonds payable	Industrial Project Bonds payable	Total
Balance at June 30, 2010	\$ 18,674,905	1,726,610	815,197	6,869,894	24,823,405	52,910,011
Increase (Decrease) in obligations	1,575,169	48,727	(11,809)	(3,640)	(19,227)	1,589,220
Principal reduction	—	—	(295,225)	(210,000)	(1,075,000)	(1,580,225)
Balance at June 30, 2011	\$ 20,250,074	1,775,337	508,163	6,656,254	23,729,178	52,919,006
Amounts due within one year	\$ —	—	319,316	220,000	1,160,000	1,699,316

(h) Pledged Revenue

The Agency has outstanding debt issuances that are collateralized by pledged tax increment revenue. The purpose of the debt issuance was for the financing of certain redevelopment activities within the Project Areas. For the current year, debt service payments as a percentage of the pledged tax revenue is indicated in the table below. This percentage also approximates the relationship of debt service to pledged revenue for the remainder of the term the debt:

Project Area	Annual Amount of Pledged Revenue	Annual Debt Service Payments	Debt Service as a Percentage of Pledged Revenue
Skypark	\$ 496,250	\$ 352,144	71%
Downtown	1,521,896	579,222	38%
Industrial	4,785,884	2,391,381	50%

**THE REDEVELOPMENT AGENCY OF
THE CITY OF TORRANCE, CALIFORNIA**
(A Component Financial Reporting Unit of
The City of Torrance)

Notes to the Basic Financial Statements

(Continued)

(6) Transfers Out/In

<u>Fund</u>	<u>Transfer out</u>	<u>Fund</u>	<u>Transfers in</u>
Debt Service Fund: Industrial	\$ 1,196,471	Capital Project Fund: Low-Mod Housing	\$ 1,196,471
Debt Service Fund: Downtown	380,474	Capital Project Fund: Low-Mod Housing	380,474
Debt Service Fund: Skypark	124,062	Capital Project Fund: Low-Mod Housing	124,062
Debt Service Fund: Downtown	<u>52,080</u>	Capital Project Fund: Downtown	<u>52,080</u>
	\$ <u><u>1,753,087</u></u>		\$ <u><u>1,753,087</u></u>

Transfers to the Low-Mod Income Housing fund represent the 20% housing set-aside pursuant to Section 33670 of the Health and Safety Code.

(7) Retirement Plan

The Agency, as part of the City, contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer PERS that acts as a common investment and administrative agent for cities in California. The Agency assumes its share of pension costs based upon rates established by PERS for the City's general employees. No separate pension benefit obligation is calculated for the Agency; accordingly, no obligation is presented herein.

Further information regarding the City's participation in PERS may be found in the City's Comprehensive Annual Financial Report.

(8) Self-Insurance

In conjunction with the City, the Agency is self-insured for automobile and general liability risks to \$5,000,000 per occurrence and self-insured for workers' compensation risks to \$2,000,000 per occurrence. Information pertaining to amount accrued for claims payable including both reported claims and claims incurred but not reported is not available at the Agency level, but may be found in the City Comprehensive Annual Financial Report.

**THE REDEVELOPMENT AGENCY OF
THE CITY OF TORRANCE, CALIFORNIA**
(A Component Financial Reporting Unit of
The City of Torrance)

Notes to the Basic Financial Statements

(Continued)

(9) Commitments and Contingencies

The Agency management believes, based upon consultation with the City Attorney, that any litigation, in the aggregate, is not expected to result in a material adverse financial impact to the Agency. Agency management believes that should an unfavorable outcome occur, funds would be available to cover such losses.

(10) Restatement of Beginning Fund Balance

The beginning fund balance in the Fund Financials has been restated to exclude net assets of the Meadow Park Redevelopment Capital Project Fund totaling \$11,513. The Meadow Park net assets were transferred to the City of Torrance. The following summarizes the effect of the restatement to beginning fund balances in the Fund Financials:

Fund balance at June 30, 2010	\$ 12,104,018
Adjustment to exclude Meadow Park amounts transferred to the City of Torrance	<u>(11,513)</u>
Fund balance at July 1, 2011	<u>\$ 12,092,505</u>

(11) Recent Changes in Legislation Affecting California Redevelopment Agencies

In June 2011, the Governor of the State of California signed legislation to provide for the eventual dissolution of redevelopment agencies. This legislation provides for the continued operation of the agency if certain payments are made to the State of California. Those agencies that elect not to make such payments, will not be permitted to initiate new projects, obligations or activities after July 1, 2011. Such agencies will only be permitted to pay existing obligations as defined by this legislation. This legislation is the subject of certain lawsuits that challenge its constitutionality. Also unknown is the final disposition of any assets transferred between redevelopment agencies and cities that occurred after January 1, 2011.

The Agency plans to comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event this legislation is upheld as constitutional. The initial payment by the City is estimated to be \$1.6 million with one half due on January 15, 2012 and the other half due May 15, 2012.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that fiscal year are dependent upon the outcome of litigation surrounding the actions of the State.

**THE REDEVELOPMENT AGENCY OF
THE CITY OF TORRANCE, CALIFORNIA**
(A Component Financial Reporting Unit of
the City of Torrance)

Combining Balance Sheet –
Nonmajor Governmental Funds

June 30, 2011
(with Comparative totals for the Prior Year)

			<u>2011</u>	<u>2010</u>
	<u>Meadow Park Project Fund</u>	<u>Skypark Project Fund</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total Nonmajor Governmental Funds</u>
Assets				
Pooled cash and investments	\$ —	6,785	6,785	18,200
Accrued interest receivable	—	—	—	98
Total assets	<u>\$ —</u>	<u>6,785</u>	<u>6,785</u>	<u>18,298</u>
Fund Balances				
Restricted for capital projects	\$ —	6,785	6,785	18,298
Total fund balances	<u>\$ —</u>	<u>6,785</u>	<u>6,785</u>	<u>18,298</u>

**THE REDEVELOPMENT AGENCY OF
THE CITY OF TORRANCE, CALIFORNIA**
(A Component Financial Reporting Unit of
the City of Torrance)

Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances – Nonmajor Governmental Funds

Year ended June 30, 2011
(with Comparative totals for the Prior Year)

			<u>2011</u>	<u>2010</u>
	<u>Meadow Park Project Fund</u>	<u>Skypark Project Fund</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues:				
Use of money and property	\$ —	—	—	964
Other revenues	—	—	—	12,845
Total revenues	—	—	—	13,809
Expenditures:				
Capital outlays	—	—	—	40,000
Total expenditures	—	—	—	40,000
Excess of revenues over expenditures	—	—	—	(26,191)
Fund balances, beginning	11,513	6,785	18,298	44,489
Prior period adjustment (note 10)	(11,513)	—	(11,513)	—
Fund balances, ending	\$ —	6,785	6,785	18,298

**THE REDEVELOPMENT AGENCY OF
THE CITY OF TORRANCE, CALIFORNIA**
(A Component Financial Reporting Unit of
the City of Torrance)
Computation of Low and Moderate Income
Housing Fund - Excess Surplus
June 30, 2011

	<u>All Project Areas</u>
Fund Balance - June 30, 2011	\$ 9,070,287
Less Unavailable Amounts:	
Loans receivable (SERAF Loan to Skypark)	<u>(1,873,725)</u>
Available Low/Moderate Income Housing Funds	7,196,562
Limitation (Greater of \$1,000,000 or Four Years Set-Aside):	
Set-aside for last four years	
2010 - 2011	1,701,007
2009 - 2010	1,673,293
2008 - 2009	1,824,463
2007 - 2008	<u>1,446,890</u>
Total set-aside for last four years	<u><u>6,645,653</u></u>
Base limitation	<u><u>1,000,000</u></u>
Greater Amount	<u><u>6,645,653</u></u>
Computed Excess Surplus - June 30, 2011	<u><u>\$ 550,909</u></u>



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Board of Directors
Torrance Redevelopment Agency
Torrance, California

**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities and each major fund of the Torrance Redevelopment Agency ("Agency"), a component unit of the City of Torrance, California, as of and for the year ended June 30, 2011 and have issued our report thereon dated December 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

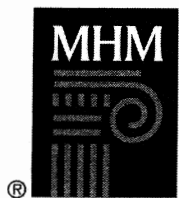
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of the Board of Directors, Agency's management and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Mayor Hoffman Nelson A.C.

Irvine, California
December 9, 2011



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Board of Directors
Torrance Redevelopment Agency
Torrance, California

Report on Compliance With Requirements That Could Have a Direct and Material Effect
and on Internal Control Over Compliance in Accordance With *Guidelines For Compliance
Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller

Independent Auditors' Report

Compliance

We have audited Torrance Redevelopment Agency (the "Agency"), a component unit of the City of Torrance, California, compliance with the California Health and Safety Code as required by Section 33080.1 for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of Agency's management. Our responsibility is to express an opinion on Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements. In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011. The Agency considers the state controller's report to meet the requirements of its annual report. The submission of this report to the board of directors was not noted in board minutes.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

Board of Directors
Torrance Redevelopment Agency
Page Two

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, Agency's management and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McLean P.C.

Irvine, California
December 9, 2011